

**THE YUKON
CONSOLIDATED GOLD CORPORATION
LIMITED**

**ANNUAL REPORT
TO THE SHAREHOLDERS**

1970

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

Head Office

Royal Trust Tower, Bentall Centre,
555 Burrard Street, Vancouver 118, B.C., Canada

BOARD OF DIRECTORS

W. A. ARBUCKLE, C.A.

J. G. S. GAMMELL, M.B.E., C.A.

W. J. R. GOVETT

NEIL B. IVORY

C. L. LAROCK, F.C.I.S.

C. E. McLEOD, Q.C.

J. WEATHERALL

OFFICERS

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President

NEIL B. IVORY
Vice-President

R. HALLER
Secretary

C. L. LAROCK
Treasurer

Canadian Registrar and Transfer Agent

THE ROYAL TRUST COMPANY,
Royal Trust Tower, Bentall Centre,
555 Burrard Street, Vancouver 118, B.C.
119 Adelaide Street West, Toronto 116, Ontario

London Transfer Committee

EDWARD HENRY BROWN
JOHN REGINALD FRANCIS-SMITH
JOHN DESMOND PEEK-BRIGGS

Secretary, London Transfer Committee

LESLIE ARTHUR BRODER
6 St. James's Square, London, S.W.1

London Registrar and Registered Office in Great Britain

CENTRAL REGISTRATION LIMITED,
Austral House, Basinghall Avenue, London, E.C.2

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

REPORT OF THE DIRECTORS

Your Directors have pleasure in submitting the Financial Statements of this Corporation covering the year ended 31st December, 1970, duly audited by Messrs. Price Waterhouse & Co., Chartered Accountants.

Statements of Profit and Loss and Deficit

Profit for the year including profit on sale of securities and after all expenses and taxes amounted to \$74,501 compared with a profit of \$181,932 for 1969. A net profit on sale of fixed assets and supplies of \$12,578 was also realized against \$31,869 for the preceding year.

Balance Sheet

Funds on deposit totalling \$1,130,000 were on hand at the year-end as compared with \$2,849,964 one year earlier.

Under an Income Debenture and Share Purchase Agreement entered into as of 1st December, 1969, between Lornex Mining Corporation Ltd. ("Lornex"), Rio Algom Mines Limited ("Rio Algom") and Yukon, Rio Algom and Yukon agreed to purchase from Lornex, Units consisting of \$1,000 principal amount of 8½% Series "A" Income Debentures due 31st December, 1985, and either 80 Class "A" or 80 Common shares of Lornex at a purchase price of \$1,000 per Unit. During 1970, and in fulfilment of this contractual commitment, Yukon invested the amount of \$2,360,000 in 2,360 Units of Income Debentures and Common shares of Lornex. At the same time, Rio Algom invested \$21,240,000 in 21,240 Units of Income Debentures and Class A shares of Lornex. Yukon's investment was financed out of advances previously made to Lornex amounting to \$1,020,000 with the balance being provided out of funds on deposit.

Shareholders will see from Note (1) of the Balance Sheet that interest compounded to 31st December, 1970, of \$47,497.33 on the abovementioned advances made by Yukon to Lornex and \$51,685.00 accrued on the Income Debentures which form part of the Lornex Units, has not been reflected in the Accounts.

These amounts of interest which will be compounding at 8½% quarterly will not become payable until after Lornex has met various requirements under the Bank Loan Agreement, the Japanese Financing Agreement and, in the case of interim advances, the Income Debenture Indenture. It has, therefore, been decided not to include such accrued interest in the Accounts meantime.

Shown separately this year is the Quintus Leaseholds Limited holding at a cost of \$238,900. Reference to Quintus is made later in this Report.

The main item on the Balance Sheet is, of course, the investment in Lornex comprising 2,360 Units and 1,080,000 Common shares. In view of the importance of this investment a copy of the 1970 Lornex Annual Report is enclosed.

The working capital remaining of \$1,243,713 is being held against future expenses, our stake in the Hazelton Joint Venture and against any additional participation in future Lornex financing.

Lornex Mining Corporation Ltd.

On 14th August, 1970, the financing and related agreements, details of which were outlined in last year's Report, were approved by the shareholders of Lornex for the development and financing of the Lornex orebody in the Highland Valley of British Columbia. As agreed previously, Rio Algom Mines Limited has assumed responsibility for the construction of the Lornex Project, and to supervise and manage the business of Lornex, both during construction and thereafter for at least fifteen years from 31st December, 1969. Development and construction work started immediately following the approval of these agreements. The present development schedule indicates that production should begin in the second quarter of 1972 and with the concentrator operating at the design capacity of 38,000 tons of ore per day the yearly production should be in the order of 162,000 short tons of copper in concentrate and 2.5 million pounds of molybdenum in concentrate. At this rate of output the orebody indicates an approximate 21-year life.

During the year the following was undertaken:

1. preparation of the open pit which will involve the removal of some 47 million tons of pre-production material; this program is substantially on schedule;
2. engineering work relating to all areas; this is approximately 50% complete;
3. excavations for the crusher, concentrator and service buildings; this is essentially complete and concrete has been poured for part of the crusher foundation and building footings;
4. development of a townsite at Logan Lake eleven miles from the mine; this is proceeding on schedule.

Construction on all phases of the project has been impeded by reason of unusually severe winter conditions.

Other mining companies in the Highland Valley had been expected to participate with Lornex in the joint development of tailings disposal and water systems on a shared cost basis. Since these companies have not yet announced final decisions to proceed with their mining projects, Lornex is developing these systems independently. However, agreements have been signed which provide that Lornex will recover a pro rata share of the ultimate cost of the water intake portion of the water system and the tailings area development, should these other mining companies later participate.

While the total project cost was estimated originally at \$123.6 million, it later became evident that there could be an over-run of between 6% and 8%. Estimates, based on definitive engineering completed to date, indicate that \$133.0 million will now be required to bring the mine into production. This increase is largely due to unavoidable delays in the start-up of construction, cost escalation greater than anticipated, more complex requirements for the tailings disposal system and more stringent pollution regulations.

These excess requirements may be provided, in whole or in part, by Rio Algom under the Construction and Management Agreement and in any event may be required to be provided during 1971 prior to the banks advancing any funds to Lornex under the Bank Loan Agreement. If Lornex is unable to reimburse Rio Algom in cash for defined construction and operating period costs incurred by Rio Algom under the Construction and Management Agreement, Rio Algom may elect either to postpone reimbursement or, in lieu thereof, elect to accept Units of Income Debentures of Lornex in principal amount equal to the amount owing and Class A shares of Lornex. Each such Unit will consist of an Income Debenture of Lornex in the principal amount of \$1,000 and 80 Class A shares of Lornex. Under a Construction and Management Participation Agreement Yukon has agreed to purchase from Rio Algom 17.5% of any Units that Rio Algom elects to accept and has been granted an option to purchase an additional 10% of such Units. Yukon, in turn, has agreed to sell to Woodford Investments Ltd., at Yukon's per unit cost all the Income Debentures and certain of the Class A shares of Lornex which Yukon may be required to purchase from Rio Algom. In addition, Woodford has the right to require Yukon on any purchase date to exercise the option granted to Yukon on Woodford's behalf to the extent that Yukon does not itself exercise such option. Once any part of the option is exercised on behalf of Woodford, Woodford has the right in respect of each subsequent purchase date to require Yukon to exercise the option on Woodford's behalf. Failure by Woodford to require Yukon to exercise such right restores the option to Yukon.

Rio Algom has appointed Mr. N. F. Warren, formerly Mine Manager at Palabora, South Africa, as Lornex Project Manager. In this capacity he has senior responsibility for construction of the Project and operation of the mine, and we welcome the appointment of such an experienced and capable gentleman. Mr. Warren was also appointed a Vice-President of Lornex on 7th December, 1970.

Hazelton Joint Venture-Morkill Explorations Limited

A small prospecting syndicate, known as the Hazelton Joint Venture, was formed in early 1970 under the management of Mr. Lisle B. Gatenby, P.Eng., of Vancouver. For the purpose of holding Yukon's interest

in this syndicate a British Columbia company was incorporated by Yukon in June 1970, bearing the name "Morkill Explorations Limited" which some shareholders may remember was the name of a former prospecting arm of Yukon but whose charter was surrendered several years ago.

The syndicate's 1970 programme, to which Yukon through Morkill contributed \$40,000 out of a total budget of \$50,000, centred in the Hazelton and Nechako regions of British Columbia. This programme produced some interesting showings, some of which have been staked and on which additional work will be done this summer. Yukon will continue to participate through Morkill in the 1971 programme.

Quintus Leaseholds Limited

The above company, in which Yukon owns \$1,255,000 par value of redeemable bonds (of which 40% has already been repaid) and 48.17% of the equity, retains its interest in the two half-sections in the Pembina Field in Alberta and its interest in the Plato Area of South West Saskatchewan. Quintus' net share in the producing Plato wells stands unchanged at six wells, from which production for the year totalled 42,573 barrels as compared with 17,850 for 1969. During the year one participant's interest was purchased by Ulster Petroleum Ltd. of Calgary who are now doing a water flood study of the area. It is disappointing to report that no drilling took place during 1970 but this is likely to be resumed after completion of the secondary recovery study for the Plato Field.

Klondike, Yukon Territory

On 19th March, 1970, the Hon. M. Jean Chretien, Minister of Indian Affairs and Northern Development, formally accepted our donation of Dredge No. 4 to the National Historic Sites Service. This Dredge will now form part of an exhibit spanning some seventy-five years of Yukon gold mining history to be established in the Bonanza Creek area of the Klondike Gold Rush International Historic Park.

Directorate

The present members of the Board, namely, W. A. Arbuckle, J. G. S. Gammell, W. J. R. Govett, Neil B. Ivory, C. L. Larock, C. E. McLeod and J. Weatherall being eligible, offer themselves for re-election.

Annual Meeting

The Annual Meeting has been called for 12th May, 1971, when any later information then available on the Lornex Project, or on Quintus, will be made known to the Shareholders.

On behalf of the Board,

W. A. ARBUCKLE,

President.

Vancouver, Canada,
30th March, 1971.

THE YUKON CONSOLIDATED
BALANCE SHEET AS AT

ASSETS

| | <u>1970</u> | <u>1969</u> |
|--|---------------------------|---------------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 14,946 | \$ 7,001 |
| Funds on deposit | 1,130,000 | 2,849,964 |
| Marketable securities, at cost (Note 2) (market value 1970 — \$102,630; 1969 — \$408,500) | 92,500 | 421,678 |
| Accrued interest (Note 1) | 4,918 | 32,155 |
| Sundry debtors | 3,647 | 6,008 |
| Income taxes recoverable (estimated) | 30,812 | — |
| Inventory of stores and supplies (Note 4) | 1 | 1 |
| | <u>1,276,824</u> | <u>3,316,807</u> |
| INVESTMENTS AND ADVANCES, at cost: | | |
| Lornex Mining Corporation Ltd. (Note 1) — | | |
| Common shares and units | 5,152,500 | 2,792,500 |
| Advances | — | 300,000 |
| | <u>5,152,500</u> | <u>3,092,500</u> |
| Quintus Leaseholds Limited (Note 2) — | | |
| Common shares and bonds | 238,900 | 238,900 |
| Subsidiary Company (Note 3) — | | |
| Shares and advances | 40,707 | — |
| | <u>5,432,107</u> | <u>3,331,400</u> |
| PREPAID CLAIMS AND LEASE RENEWAL FEES | 9,400 | 11,750 |
| PROPERTIES AND EQUIPMENT, at written down value (Note 4) . . . | 1 | 1 |
| LAND, at cost (Note 4) | 1,583 | 1,583 |
| | <u><u>\$6,719,915</u></u> | <u><u>\$6,661,541</u></u> |

LIABILITIES

| | 1970 | 1969 |
|--|---------------|---------------|
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses. | \$ 27,460 | \$ 25,057 |
| Income taxes payable. | — | 31,068 |
| Unclaimed dividends | 5,651 | 5,691 |
| | <u>33,111</u> | <u>61,816</u> |

SHAREHOLDERS' EQUITY

SHARE CAPITAL:

| | | | |
|---|-------------------------|--------------------|--------------------|
| 3% Non-cumulative redeemable preferred shares of \$1 each — | | | |
| Authorized — | <u>3,000,000 shares</u> | <u>\$3,000,000</u> | |
| Common shares of \$1 each — | | | |
| Authorized — | <u>8,000,000 shares</u> | <u>\$8,000,000</u> | |
| Issued | <u>7,146,202 shares</u> | 7,146,202 | 7,146,202 |
| Reserved for issue, in exchange for securities of former subsidiary companies, etc. | | 44,300 | 44,300 |
| | | <u>7,190,502</u> | <u>7,190,502</u> |
| DEFICIT, per statement attached. | | 503,698 | 590,777 |
| | | <u>6,686,804</u> | <u>6,599,725</u> |
| Approved on behalf of the Board: | | | |
| W. A. ARBUCKLE, Director | | | |
| NEIL B. IVORY, Director | | | |
| | | <u>\$6,719,915</u> | <u>\$6,661,541</u> |

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST DECEMBER, 1970

| | 1970 | 1969 |
|--|------------------|-------------------|
| REVENUE: | | |
| Royalties from lays | \$ 7,285 | \$ 10,763 |
| Interest on investments, etc.. | 182,418 | 203,674 |
| Miscellaneous | 390 | 1,160 |
| | <u>190,093</u> | <u>215,597</u> |
| EXPENSES: | | |
| Claims renewal and exploration costs | 753 | 327 |
| Legal fees and expenses | 9,774 | 106 |
| General expenses — | | |
| Head office | 33,262 | 30,381 |
| Dawson office | 14,432 | 25,289 |
| London office | 4,780 | 6,539 |
| Directors' and officers' remuneration (Note 5) | 13,000 | 12,875 |
| Travelling expenses | 2,104 | 3,274 |
| | <u>78,105</u> | <u>78,791</u> |
| PROFIT ON OPERATIONS | 111,988 | 136,806 |
| Profit on sale of securities | 14,722 | 88,612 |
| | <u>126,710</u> | <u>225,418</u> |
| PROFIT FOR THE YEAR BEFORE INCOME TAXES | 126,710 | 225,418 |
| Estimated income taxes | 52,209 | 43,486 |
| | <u>74,501</u> | <u>181,932</u> |
| NET PROFIT FOR THE YEAR | <u>\$ 74,501</u> | <u>\$ 181,932</u> |

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF DEFICIT FOR THE YEAR ENDED 31ST DECEMBER, 1970

| | 1970 | 1969 |
|---|--------------------------|--------------------------|
| Deficit at beginning of year | \$ 590,777 | \$1,953,088 |
| Deduct: Net profit on disposal of fixed assets and supplies | 12,578 | 31,869 |
| | <u>578,199</u> | <u>1,921,219</u> |
| Net profit for the year | 74,501 | 181,932 |
| | <u>503,698</u> | <u>1,739,287</u> |
| Deduct: Transferred from contributed surplus. | — | 1,148,510 |
| Deficit at end of year. | <u><u>\$ 503,698</u></u> | <u><u>\$ 590,777</u></u> |

STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED 31ST DECEMBER, 1970

| | 1970 | 1969 |
|--|--------------------|--------------------|
| Premium received on issuance of 1,191,031 Common shares of Capital Stock | \$ — | \$1,205,295 |
| Deduct: | | |
| Commissions and expenses of subscription rights issue | — | 56,785 |
| | <u>—</u> | <u>1,148,510</u> |
| Transferred to deficit. | — | 1,148,510 |
| | <u><u>\$ —</u></u> | <u><u>\$ —</u></u> |

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 1970

NOTE 1: LORNE MINING CORPORATION LTD.

1. In connection with the financing of the Lornex project the Corporation, on 29th September, 1970, purchased from Lornex 2,360 units, each unit consisting of a \$1,000 unsecured Income Debenture and 80 Common shares of Lornex, for a total cost of \$2,360,000. Interest accrues on such Income Debentures from the date of purchase at the rate of $8\frac{1}{2}\%$ per annum, compounded quarterly. The amount of such interest to 31st December, 1970, which has not been taken up in these accounts, is \$51,685.

On the day the Income Debentures were purchased, the Corporation's advances to Lornex under the interim financing arrangements, which then amounted to \$1,020,000, were repaid and a note for \$46,479.87 was received in respect of interest on such advances, the note to bear interest at the rate of $8\frac{1}{2}\%$ per annum, compounded quarterly. This note, and interest thereon to 31st December, 1970 of \$1,017.46, cannot be paid while any amounts are owing by Lornex under the Bank Loan Agreement, under the Japanese Financing Agreement or under the Indenture securing the Income Debentures. It has therefore been decided not to reflect these transactions in the Accounts. Interest of \$7,346 accrued in 1969 has been reversed.

2. With respect to the supplementary financing, when required, the Corporation:

(a) will purchase from Rio Algom Income Debentures and Class A shares of Lornex for an aggregate expenditure not to exceed \$5,250,000 and has been granted the option to purchase from Rio Algom additional Income Debentures and Class A shares;

(b) will sell to Woodford Investments Ltd. such Income Debentures and certain of such Class A shares purchased from Rio Algom and, under certain specified circumstances, has granted to Woodford the option to purchase such additional Income Debentures and certain of such additional Class A shares which the Corporation may acquire by way of option from Rio Algom.

The Corporation's obligation to purchase from Rio Algom the Income Debentures and Class A shares of Lornex for an aggregate expenditure not to exceed \$5,250,000 has been guaranteed through the establishment of a stand-by credit with a Canadian chartered bank. Woodford has undertaken to guarantee to the bank any moneys furnished to the Corporation for the aforementioned purpose and to reimburse the Corporation for the amount of the stand-by fee required during the currency of the stand-by credit.

NOTE 2: QUINTUS LEASEHOLDS LIMITED

The Corporation's investment in Quintus Leaseholds Limited in 1969 and prior years was included with marketable securities in current assets under the heading "Investments, at cost".

NOTE 3: SUBSIDIARY COMPANY (MORKILL EXPLORATIONS LIMITED)

Shares in and advances to subsidiary company consist of 100 shares of capital stock of \$1 par value subscribed at par and advances totalling \$40,607, of which \$28,798 have been expended. In view of the amounts involved the assets and liabilities of the subsidiary have not been included in these financial statements.

NOTE 4: SALE OF ASSETS IN YUKON TERRITORY

Since the end of the year the Corporation has sold, for the sum of \$100,000, all of its remaining assets situated in the Yukon Territory, with the exception of certain mining claims and leases, all of the Corporation's records and files, cash, bank balances and accounts receivable.

NOTE 5: INFORMATION RE DIRECTORS AND OFFICERS

The Board of Directors consists of seven members whose aggregate remuneration as Directors amounted to \$10,500 in 1970 and \$10,375 in 1969. There are four Officers of the Corporation whose aggregate remuneration, as such, amounted to \$2,500 in each of the years 1970 and 1969. Three of such Officers of the Corporation are also Directors.

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31ST DECEMBER, 1970

| | 1970 | 1969 |
|--|-----------------------------|---------------------------|
| SOURCE: | | |
| Repayment of advances to Lornex Mining Corporation Ltd. (Note 1) | \$1,020,000 | \$ — |
| Net proceeds of issuance of 1,191,031 Common shares of Capital Stock | — | 2,339,541 |
| Net profit on disposal of fixed assets and supplies | 12,578 | 31,869 |
| Reduction in Advance Payments and, in 1969, Special Refundable Corporation Tax | 2,350 | 5,804 |
| Net profit for the year | 74,501 | 181,932 |
| | <u>1,109,429</u> | <u>2,559,146</u> |
| APPLICATION: | | |
| Purchase of 2,360 units Lornex Mining Corporation Ltd. | 2,360,000 | — |
| Advances to Lornex Mining Corporation Ltd. (Note 1) | 720,000 | 300,000 |
| Investment in and advances to Subsidiary Company | 40,707 | — |
| Claims and lease rentals paid in advance | — | 11,750 |
| Purchase of land | — | 1,583 |
| Reclassification of investment in Quintus Leaseholds Limited (Note 2) | — | 238,900 |
| | <u>3,120,707</u> | <u>552,233</u> |
| NET (DECREASE) INCREASE IN WORKING CAPITAL | <u><u>\$(2,011,278)</u></u> | <u><u>\$2,006,913</u></u> |

AUDITORS' REPORT

To the Shareholders,
THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED:

We have examined the balance sheet of The Yukon Consolidated Gold Corporation Limited as at 31st December 1970 and the statements of profit and loss, deficit, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements are properly drawn up so as to present fairly the financial position of the company as at 31st December 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

Vancouver, B.C.
12th March, 1971.

